INNOVATIVE MANAGERIAL PRACTICES IN B2B SECTORS
(EUROPEAN AND RUSSIAN CASES)

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Abstract
The aim of research is to confirm the hypothesis that Blue Ocean Strategy (BOS) as an innovative managerial practice is viable in the B2B sectors. The objects of research are two business entities: world’s leading suppliers of construction chemicals (Switzerland) and manufacturer of purification equipment (Russia). Authors posed first research question is BOS a suitable within construction chemicals and purification equipment manufacturers’ industries? Second research question was about how to evaluate acceptability of new strategic choice on BOS? Third research question was how to diagnosis organizational hurdles on BOS implementation? Research has confirmed the hypothesis and suggested application of innovation value chain to diagnosing company’s ability to implement value innovation.

Keywords: B2B sector; Strategic Canvas; Blue Ocean Strategy Idea Index; Value Innovation Chain.

JEL Classification: L17, M13, O31, O32, O33.

Introduction
To implement the new strategy an organization would have to overcome key organizational challenges, including the cognitive, resource, motivational and political hurdles (Kim, Mauborgne, 2005). Many successful examples about Blue Ocean Strategies implementation focus much more on B2C than B2B sectors, although most sales and marketing personnel is in the B2B sector. However there are very few examples how to diagnosis of a type or hurdle would be the most potentially serious for organization. The aim of this research is confirm the hypothesis that Blue Ocean Strategy can be viable and successfully implemented in the organization of B2B sectors as well as to explore how to diagnosis a type of organization hurdles which would resist the implementation of Blue Ocean Strategy in practice.

The objects of this research are two real business entities from two different countries operating in two different fields in terms of technologies, industry life cycles and the natures of innovations, those companies working in production and distribution of construction chemicals (Switzerland) and in production and distribution of industrial purification equipments (Russia). As concerns the basic unit of analysis, the current research mainly concentrates on Strategic Move. Strategic move is the set of managerial actions and decision involved in making a major market-creating business offering (Kim, Mauborgne, 2005).

The type of research is classified as descriptive (provides a description of organizational capabilities that need to be developed for successful implementation of blue ocean strategy within B2B sector), co-relational (identify multiple factors that influence value innovation creation in B2B sector), with minimal interference of researchers, non-contrived (conducted in the natural environment where organization’s work proceeds normally). The time horizon of study is cross-sectional – data collections are done just once over short period of time (up to several months). Data collection methods: interviews, questionnaire, and observation.

Description of research
The objects of this research were two real business entities from two different countries operating in two different fields. First company SIKAJ AG (Switzerland) is one of the world’s leading suppliers of construction chemicals presented globally in more than 70 countries. Second company ALEXANDRA PLUS LLC (Russia) is the B2B provider of new innovative purification technologies in industrial sector. The companies have been chosen taking in consideration different industries development stages: SIKAJ AG runs the business many years in mature construction chemicals industry and ALEXANDRA PLUS LLC represents business in emergent industry of innovative industrial purification technologies. Accordingly, three research questions have been elaborated. Having provided the hypothesis authors posed first research question is Blue Ocean Strategy is suitable within B2B sectors like construction chemicals and industrial purification equipment sectors? Suitability is concerned with whether a strategy
addresses the key issues that have been identified in understanding the strategic position of the organisation. Broad literature review helped authors to analyze a range of classical models and techniques to test a suitability of strategic choices, however many of them are based on the concepts of Red Ocean Strategy. Authors have decided to apply Four Actions Framework, the Strategy Canvas to visualize a suitability of Value Innovation creation for two very different industries. Accordingly, second research question was appeared: what about the most helpful analytical technique to evaluate an acceptability and feasibility of Blue Ocean Strategy? Acceptability is concerned with the expected performance outcomes of a strategy. Feasibility is concerned with whether an organisation has the resources and competences to deliver a strategy. Authors adopted a Blue Ocean Strategy Idea Index to test acceptability and feasibility of new strategic canvas for two business entities. Third research question was formulated as follows: how to diagnosis organisational hurdles on value innovation implementation? Authors adopted Innovation Value Chain to identify major barriers on the way of value innovation implementation.

Investigation stage has included: firstly, the literature reviewed on commercial viability of strategic choices in Red and Blue Ocean strategy; secondly, the interviews and questionnaires are used in order to obtain information from the companies management, companies customers and non-customers; thirdly, the direct observations of the work environment and industry specifics are made; fourthly, the secondary data, such as statistics, publications and internal company reports are examined and finally, the data is analyzed and interpreted, on the basis of which the research question are answered.

**Data analysis and interpretation**

There are number of tools that can be used to assess the suitability of strategic choice. These include: ranking as method of identifying strategic options, decision trees where options are “eliminated” and preferred options emerge and also scenarios. However many of above mentioned concept are based on the concepts of Red Ocean Strategy (Kim, Mauborgne, 2005), they will not be able to test suitability of creation Blue Ocean Strategy and can not be applied in current research. For answering first research question the object of research has been taken Switzerland Company “SIKA” operating in construction chemical industry presented in Table 1.

<table>
<thead>
<tr>
<th>Company name</th>
<th>“SIKA AG”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status of the company</td>
<td>Joint Stock Company</td>
</tr>
<tr>
<td>Date of registration</td>
<td>1910</td>
</tr>
<tr>
<td>Target markets</td>
<td>Presented globally in more than 70 countries</td>
</tr>
<tr>
<td>Target industries</td>
<td>Construction industry</td>
</tr>
<tr>
<td>Annual turnover</td>
<td>4624.5 million CHR (2008)</td>
</tr>
<tr>
<td>Number of employees</td>
<td>12900</td>
</tr>
<tr>
<td>Industry development stage</td>
<td>Maturity stage</td>
</tr>
<tr>
<td>Company Profile</td>
<td>Construction chemicals</td>
</tr>
</tbody>
</table>

Construction chemicals are broad array of chemicals used in construction industry to reduce costs and/or to achieve necessary quality characteristics of final product (water resistant concrete, for instance). In current research the main focus is on the chemicals used for concrete and cement production. Having answered on first research question the study aim was to obtain information relevant to the group of people working within construction chemicals business and located in Scandinavian and Baltic countries. Judgments sampling involves the choice of individuals who are in the best position to provide the information required and represent a rich data source (Sekaran, 2010). In order to identify critical success factors three top managers having decade’s long experience within construction chemicals were asked during the phone interview from. The interviewees were offered to list factors they think are most important to be successful within construction chemicals industry in the form of unstructured brainstorming when the ideas are given as they come to mind (Brassard et al., 2002). What do you think the most critical success factors within construction chemicals industry are? Please name 10-15 factors that come to your mind.

1. What additional offerings can be created for the customers that are still missing in construction chemicals industry?
2. Are there any alternatives available in other industries that company may start offering instead and thus make customers trade across alternatives?
3. Are there other strategic groups within construction chemicals industry that can be attracted by existing offerings?
4. Are there any overlooked groups of potential customers in the chain of buyers (user, influencer, purchaser)?
5. Is there a need for complementary products and services that is still not satisfied?
6. Is there a possibility to change functional appeal of construction chemicals industry into emotional one?
7. Are there stable and irreversible trend that can significantly change the business?
8. What non-customers can be attracted by construction chemicals industry offerings?

All the given ideas were grouped by identity as sometimes they meant the same with different wording. The final list generated served as the basic list of critical success factors for designing of questionnaire. Then, altogether twelve individuals were chosen as respondents who are directly involved with construction chemicals business and technologies, are highly experienced within the field of study (in some cases decades long), and represent the countries under investigation. In addition, these experts were readily available by phone and e-mail as are personally known by one of researcher which minimized access concerns that usually accompany judgment sampling approach. To determine the importance weight of each critical success factor, first, all twelve respondents were offered, in questionnaire to simply choose value from 1 to 5 (1 – low importance in the industry and 5 – high importance) in dropdown list in appropriate cell of excel spreadsheet. Only nine of twelve respondents (75 %) exercised it and sent the results back to the researchers. Afterwards, the absolute value chosen for each factor has been divided by total sum of absolute values of all factors in the list, giving the weight of certain factor from one respondent. The average weight of certain factor was then calculated from all responses. In addition, the results obtained from questionnaire have been used in practicing Four Actions Framework for SIKA AG and contribute to the suitability assessment of Blue Ocean Strategy within construction chemicals business.

Further, identification of competition offering level in the market (i.e. critical success factors competitors are investing in) was made by means of questionnaire, where the respondent were able to choose the offering level of critical success factors in construction chemicals industry for SIKA and the main competitors in the comparative scale from 1 to 5 (1 means low, 5 means high offering level). The questionnaire served in assessing SIKA’s and competitors’ offering level of the most important CSFs which have been identified on previous stage. Each respondent was asked to estimate each factor for SIKA AG and for BASF AG as main competitors. Only ten out of twelve respondents (83 %) filled in the questionnaire and delivered the answers to the researchers. All ten mentioned BASF as competitor number one. During the assessment of CSFs’ importance within construction chemicals market the following factors have been weighted as the least important: complementary products, commodity products, back-integration and training of customers. Advanced technology, quality, technical support, complete solutions, price and ease of use of product are among highly rated factors. The rest (skilled sales force, tailor made solutions, fast delivery and geographic presence) are somewhere in the middle. To reconstruct buyer value elements in crafting a new value curve, researchers have developed the four actions framework. Complementary products provided by respondent are more imitations of competitors’ moves and thus can be reduced to the minimum to lower the costs. Commodity products are still cash generators and cannot be eliminated until new innovative products pioneers become profitable. Anyway sooner or later SIKA should give up on commodities completely. Tailor made solutions have middle importance weight and also stand comparatively high in the value curve. This factor is more about differentiation and focus strategies that are mainly pursued in competitive red oceans. Blue ocean strategy on contrary looks for commonalities. Therefore, it makes sense to significantly reduce it in order to cut costs. Price is of high importance within construction chemicals industry, and has reversed influence (the higher the price the less attractive is the offering). It can be slightly reduced due to the cost reduction moves discussed above to make the offering even more attractive. Training of the customers should be even raised in spite of low importance weight as it’s been concluded that some of customers in the chain of buyers have been overlooked. Advanced technology is the most important CSF according to the rating and is directly related with the capabilities of the company to innovate.
The new value curve for SIKA has been built based on that information and is presented in Figure 1 along with the main competitor value curve. Effective blue ocean strategy has to have three complementary qualities: focus, divergence, and a compelling tagline. Now a clear divergence from competition and focus on certain factors can be observed on the new Strategy Canvas of SIKA AG. The compelling tagline of new strategy can be pronounced as follows: “More innovation to our customers with friendly and honest attitude!” Based on these three attributes it can be concluded that initial litmus test of commercial viability in terms of suitability of presented blue ocean ideas is passed. Thus, it can be concluded that blue ocean ideas are suitable within construction chemicals industry, but of course more detailed investigation of each criteria is still necessary. The difference between the current and the desired industry performance level in terms of its Critical Success Factors was representing the direction of the Buyer Value Innovation creation in search of the Blue Ocean strategy and makes the strategic choice as a suitable one in B2B sectors.

Second research objective was Russian Company LLC Alexandra Plus, provider of new innovative purification technologies in industrial sector presented in Table 2. The direct observations of the work environment of manufacturers of industrial purification equipments specifics are made by researchers; the secondary data, such as statistics, publications, videos and internal company reports of ALEXANDRA PLUS LLC are examined. Having manufactured and supplied purification equipment for railway industries, company has started to produce purification equipment for metallurgy, medicine, and even for water industrial purification equipment based on ultrasonic waves technologies. Company maximized the scale of his blue ocean strategy beyond existing demand to non-customers and de-segmentation opportunities for future strategies. These newer technologies based on ultrasonic ways were opening up new market opportunities for ALEXANDRA PLUS, also raised fresh challenges in further strategic choices. Blue Ocean has been created in 2004, when after careful market research; ALEXANDRA PLUS launched a new daughter company producer of water purification equipment, LLC NOVOTECH EKO. There are traditionally three kinds of impurities in water: physical, chemical and bacterial, each presenting a different challenge in terms of consequences for human health as well as technologies and feasibility of removal.
Table 2. Russian Company “Alexandra Plus LLC”, manufacturer of industrial purification equipment

<table>
<thead>
<tr>
<th>Company name</th>
<th>“ALEXANDRA PLUS”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status of the company</td>
<td>Limited Liability Company</td>
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<tr>
<td>Date of registration</td>
<td>2000</td>
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<tr>
<td>Target markets</td>
<td>Russia, Ukraine, Kazakhstan, Byelorussia, Latvia, Lithuania, Macedonia, Mongolia, China</td>
</tr>
<tr>
<td>Target industries</td>
<td>Real ways, Metallurgy, Public Utilities</td>
</tr>
<tr>
<td>Number of employees</td>
<td>36</td>
</tr>
<tr>
<td>Number of clients</td>
<td>300</td>
</tr>
<tr>
<td>Industry development stage</td>
<td>growing</td>
</tr>
<tr>
<td>Company Profile</td>
<td>Industrial purification equipments</td>
</tr>
</tbody>
</table>

Although numerous technologies existed, the water purification market was dominated by ultraviolet (UV). A UV purifier irradiated water using UV rays, eliminating bacterial micro-organism. UV equipment needed reliable running water and power and seeks out after-sales service when exhausted consumables like UV lamps needed replacement. Regarding ultrasonic purification equipments produced by NOVOTECH EKO, the efficiency of ultrasonic clearance (US) is based on high-frequency oscillations which are the cause of strong cavitations in liquids. Microscopic cavitations bubble explodes in liquid removing grease and other kinds of impurities quickly and efficiently. NOVOTECH EKO LLC Company has created unique water purification technology in the world combining ultrasonic waves with UV rays for eliminating bacterial micro-organism till 100%! The benefits of ultrasonic waves plus UV rays technology were quite obvious e.g. minimal maintenance costs, long class life of equipments, high level of ecology and energy efficiencies and short payback period.

Figure 2. Strategic Canvas of manufacturers of industrial purification equipment
(20 respondents: 10 customers and 10 non-customers)

It gave sound viable example of successful implementation of Blue Ocean Strategy in B2B sector. Strategy canvases for producers of industrial purification equipment, particularly, new Strategy Canvas for LLC Alexandra Plus have been built in comparisons with Russian purification equipment producers ITRANS LLC and Italian competitor MADIGO Group S.r.l as presented in Figure 2. Thus, authors applied strategy canvas to visualize value innovation creation for two very different industries. New Strategy Canvas has been elaborated for both industries and answer on the first research question was
given in confirmation manner, namely, Blue Ocean Strategy is suitable within B2B sectors. The concepts and frameworks already applied in current research can be especially helpful in understanding suitability of Blue Ocean Strategy in B2B sector.

Accordingly, second research question was appeared: what about the most helpful analytical technique to evaluate an acceptability and feasibility of Blue Ocean Strategy? It is very important to get strategic sequence right to insure acceptability of blue ocean idea. The assessment of viability in terms of acceptability and feasibility of blue ocean strategy within construction chemicals industry and in industrial purification equipment has been conducted based on the answers to first research questions. By addressing the problems related to the spread of new ideas throughout the company adoption hurdles raised by employees can be easily tackled. The water purification equipment that promoted NOVOTECH EKO help economizes a sufficient resource that is not in interest of state-owned organizations (Naiden, 2009). At present NOVOTECH EKO delivers water purification ultrasonic based technologies equipment for small cottages, sanatoriums, and private water-canal as well as for sewage tanks. BOS Idea index (Table 3) visualizes whether each criterion throughout strategic sequence towards commercially viable blue ocean idea has been met. It can be concluded that blue ocean ideas are commercially viable within B2B sector at least in construction chemicals industry and water purification sector, but of course more detailed investigation of each criteria is still necessary. Small issues, however, can be observed inside the company. The research revealed the spread activity as one of the weakest in the company SIKA.

Table 3. Index of blue ocean ideas in construction chemical industries for “SIKA AG” and in industrial purification technologies for “ALEXANDRA PLUS LLC”

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Questions</th>
<th>SIKA AG Criteria met?</th>
<th>ALEXANDRA PLUS LLC Criteria met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility</td>
<td>Is there exceptional utility? Are there compelling reasons to buy the offerings?</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Price</td>
<td>Is the price easily accessible to the mass of buyers?</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Cost</td>
<td>Does the cost structure meet the target cost?</td>
<td>+/−</td>
<td>+</td>
</tr>
<tr>
<td>Adoption</td>
<td>Have the adoption hurdles been addressed upfront?</td>
<td></td>
<td>+</td>
</tr>
</tbody>
</table>

Third research question was formulated as follows: how to diagnosis organisational hurdles on value innovation implementation? Value innovation isn’t an easy task as many innovative ideas failed to become real products due to many reasons (Anonymous, 2007; Bruce & Birchall, 2009; Kanter et al., 1997; Temme, 1998; Tellis & Golder, 2002). Several authors postulate that it is not enough just to hire creative people and make organization innovative (Bharadwaj & Menon, 2000; Griffin, 1990). Different organizations face different hurdles in development of new products, services or businesses (Hansen & Birkinshaw, 2007), thus proving that there is no universal solution for innovative process. However, by taking an end-to-end (or holistic) view on innovative efforts organizations are able to pinpoint their weaknesses and adjust their innovation practices to address existing deficiencies (Egbu, 2004; Hansen & Birkinshaw, 2007). Hansen & Birkshaw (2007) have offered a comprehensive framework on end-to-end view, called the Innovation Value Chain (IVC) as shown in Figure 3. Having answered third research question researchers had chosen SIKA Corporation as object of research because Blue Ocean Ideas had not been implemented so far in comparison with ALEXANDRA PLUS who had successfully implemented BOS recently.

For the purpose of finding the weakest link in the IVC of SIKA the questionnaire has been designed. The questionnaire was designed as simplified Likert scale where the respondent is asked to express their agreement or disagreement with the statements provided (Sekaran, 2010). Each of the answer options has certain value: “Do not agree” = 1, “Partially agree” = 2 and “Agree” = 3. The value is then multiplied by the part (share) of respondents that have chosen certain option and summed to give Total score of the statement. The maximum Total score of each statement can be 3 in case 100% of respondents agreed with the statement. Several statements represent certain link or activity in the Innovation Value Chain, and the sum of Total scores of statements results in Total score of activity. The higher is the score the weaker is the activity (or link). Ten of twelve respondents (83%) expressed their agreement level with the statements in the questionnaire. The strongest links of SIKA’s IVC are in-house idea generation (total score of activity is 3.0), external sourcing of ideas (total score of activity is 3.4) and
initial funding of new projects (total score of activity is 3.60). The weakest links of SIKA’s IVC are cross-pollination (total score of activity is 4.30), development of ideas (total score of activity is 4.10) and their spread across the organization (total score of activity is 6.30). Cross-pollination weakness is related with low involvement of people from different units and subsidiaries in innovation projects, and with reluctance of different units and businesses to collaborate on projects. The development of innovative ideas suffers mainly from slow development of new products. This can be explained with too high amount of projects, which is mainly idea screening problem, with lack of human resources to deal with all projects or with lack of project management capabilities. Finally, spread activity is the weakest one due to slow roll out of new products to the market and unwillingness to penetrate all possible channels, customer groups and regions with new products.

Therefore SIKA has to find the ways of overcoming this hurdle either by finding true leaders, who preach good words about emerging product or business throughout the company but may not be readily available, or by other means. In overall the IVC of SIKA is not that weak (the maximum total score for each statement is 3.0 and none of them was higher than 2.3), but in any case by addressing the issues related to mentioned weaknesses the company can improve its capabilities in value innovation activities and significantly contribute to value innovation creation and eliminate adoption barriers (cognitive and motivation hurdles) raised by employees. Regarding resource and political hurdles these are not the case of SIKA AG. Because for 100 years SIKA has positioned itself as innovative company always striving for introducing something new into the market. For instance, invention rate (percentage of sales with products invented within the previous five years) is 34 % (SIKA, 2009a). Thus answering on third research question the VIC (value innovation chain) has been adopted to diagnosis organization hurdles and the weakest links of SIKA’s innovation value chain were identified and certain suggestions to address them provided.

**Conclusion**

Research has confirmed the hypothesis that Blue Ocean Strategy can be viable and successfully implemented in B2B sectors. The answer to the questions on the viability (suitability, acceptability and feasibility) of Blue Ocean within construction chemicals industry for SIKA AG and within industrial purification technologies for ALEXANDRA PLUS LLC, which was the main aim of the research, was found. Furthermore, the elements of blue ocean strategy in currently undertaken strategic steps of SIKA AG and ALEXANDRA PLUS LLC have been revealed. When it comes to limitation of the research paper the time constraints imposed the most limiting influence on the research. The scope of research is also restricted geographically as the information was mainly collected from managers in Scandinavian and Baltic countries for SIKA AG and in Russia and Latvia for ALEXANDRA PLUS LLC. Next researches in this area will be connected with investigation how to re-direct limited organizational resources from cold spots to hot spots to execute Blue Ocean Strategy to overcome diagnosed key organizational hurdles on practice?
References